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C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 000405

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SUBJECT: GUARDIAN'S POWER PROBLEMS REFLECT UAE SHORTAGES

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CLASSIFIED BY MARTIN QUINN, CHARGE D'AFFAIRES A.I., FOR REASONS 1.4
(B & D)

THIS MESSAGE CONTAINS BUSINESS PROPRIETARY INFORMATION.

¶1. (SBU) Summary: The U.S. Counsel for Guardian Industries (a U.S. firm with a USD 150 million float glass plant in Ras Al-Khaimah (RAK) suffering from lack of a reliable electricity supply) contacted post for information on pipeline networks in the UAE that could supply gas to RAK (to help power the plant) and a sense of natural gas prices. After USG intervention, the Federal Electricity and Water Authority (FEWA) was able to provide Guardian with four Megawatts (MW) of its 10 MW daily requirement. Guardian realizes that FEWA does not have the power available to meet its needs fully and has purchased a gas turbine to generate power. It currently is being offered gas at a price it believes is inappropriately high, although the offered rate appears to be in the price range of new gas contracts. It is technically feasible to pipe gas from the Emirate of Abu Dhabi to RAK via two pipelines, but supplies of gas in the UAE are insufficient to meet demands. We have communicated the general details of pipeline and pricing to Guardian's U.S. Counsel. End summary

Guardian Industries' Electricity Needs

¶2. (SBU) On March 24, Lincoln Bloomfield (in his role as an employee of Guardian Industries U.S. Counsel Akin Gump) contacted Econchief to follow up on earlier conversations regarding Guardian Industries' problems obtaining electricity for its RAK float glass plant. He confirmed that FEWA responded to USG intervention and was now providing Guardian with four Megawatts (MW) of power. (Note: Embassy and Consulate General have been trying to assist Guardian with its power shortages, since learning of the issue in October 2007 [ref a]. Ambassador, Consul General, and Econchief have all raised the issue with federal and emirate authorities. In addition, Secretary of Energy Bodman raised the issue in his meeting with the UAE Minister of Energy in January 2008. End note.)

¶3. (SBU) Bloomfield explained that Guardian needed roughly 10 MW to operate its plant, roughly broken out as:

- Power for the plant (mainly the furnace) - 4 MW
- Power for nitrogen-hydrogen generation (essential to production) - 3 MW

-- Power for USD 30 million coater to make energy-conserving architectural glass (to be installed by the end of 2008) - 3 MW

¶4. (SBU) Bloomfield explained that Guardian, recognizing that demand outstrips FEWA's supply (especially in the summer months), has now purchased a USD six million gas turbine and is searching for a reliable gas supply to power it. He said Guardian is being offered gas from the Umm al Quwain offshore gas development project at USD six per million BTU, and believes it is being "overcharged." It is searching for gas at around two-thirds of that price or lower. Guardian also believes that the pipeline infrastructure exists for Abu Dhabi to supply gas to Ras Al-Khaimah (and to the Guardian plant). Bloomfield asked Econchief for an assessment of whether lower priced gas could be available and whether the infrastructure exists to pipe it from Abu Dhabi to Ras Al-Khaimah.

Pipeline Infrastructure

¶5. (SBU) Because of the federal nature of the UAE, and the constitutional provision that natural resources belong to each individual emirate, there is no single overall power supplier. The Emirates of Abu Dhabi, Dubai, and Sharjah all have their own power utilities. The Federal Electricity and Water Authority supplies power to the northern emirates of RAK, Umm al Quwain, Ajman, and Fujairah, either from its own generation capacity or purchased. According to FEWA's General Manager, for example, FEWA purchases electricity from Fujairah's Union Water and Electricity Company, which has power generation capacity but is not an electricity distributor. FEWA also supplies around 200 MW of power to areas of the emirate of Sharjah that are not supplied by the Sharjah utility. There is still no national electricity grid and pipeline interconnections are confusing. According to Embassy contacts, there are two possible pipeline routes to get gas from Abu Dhabi to Ras Al-Khaimah.

-- The Dolphin project's Al-Ain to Fujairah pipeline was commissioned

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in 2004. It is a 24-inch, 182 km pipeline. Its capacity is 160 million cubic feet (mmcf) per day. The pipeline connects to an existing Emarat gas pipeline network, which serves the northern emirates and to an existing pipeline network in the Emirate of Abu Dhabi. It also connects to Oman through a tie-in on the UAE-Oman border. In May 2005 Dolphin Energy began supplying 40 mmcf of Omani gas per day to Ras Al-Khaimah. The contract with Oman expired in July 2007. Dolphin does not yet have its own pipeline connecting its gas receiving facilities in Taweelah to this pipeline. Reportedly Ras Al-Khaimah continues to receive around 20 mmcf per day of gas from this pipeline (presumably from the Emirate of Abu Dhabi).

-- There is a second network of pipelines that can connect Abu Dhabi to Ras Al-Khaimah via the emirates of Dubai and Sharjah. The pipeline network is reportedly not operating at capacity. The problem, however, is that the Emirates of Dubai and Sharjah both need more gas as feedstock for their own power needs, especially in the summer, and reportedly levy high transfer tariffs on gas going through their portions of the network.

Gas Pricing

¶6. (SBU) According to energy sector contacts, gas pricing in the Arabian Gulf for new contracts runs from USD four to upwards of USD seven per thousand cubic feet (roughly equivalent to a million BTU). An Abu Dhabi government employee told Econchief that ADNOC's "net back" price for its liquid natural gas exports was USD 5.80 per thousand cubic feet. Qatar reportedly sold Dubai "early gas" through the Dolphin pipeline for USD four per thousand cubic feet in 2007. The price that Dolphin Gas negotiated with Qatar is much lower, but was negotiated when oil was USD 12 per barrel and has a very low inflation adjustment. Although, Dolphin was originally criticized for paying too much for the gas, the rapid increase in natural gas prices has made this an excellent deal. Reportedly, Qatar is balking at signing a new deal with Dolphin unless its price is closer to the current market price.

17. (C) Government to Government negotiated prices can be lower, especially if the gas company is owned by the same government as the power company. For example, ADNOC sells gas to the Abu Dhabi Water and Electricity Authority (ADWEA) at a much lower price (reportedly about 19 percent of its market price). The Deputy CEO of ADNOC, however, told Econchief that the gas they sold to Dubai until Dolphin came on line was at commercial terms. He confirmed that ADNOC continues to provide Dubai with gas, indirectly, by substituting ADNOC gas for the gas Dolphin originally contracted to provide the Abu Dhabi Water and Electricity Authority. This allows Dolphin to provide additional gas to Dubai.

18. (SBU) In turn, however, the utilities sell power at a below market discounted price. Both corporate and residential clients benefit from the subsidies, although corporate subsidies are smaller than residential subsidies.

Comment

19. (C) Guardian's problems are symptomatic of the larger problem of a mismatch between the demand for power and the supply of natural gas. Even the Emirate of Abu Dhabi, with around 94 percent of the natural gas reserves in the country, needs to burn liquids (crude or diesel) in the summer. The other emirates face similar problems. The aggressive development plans that many emirates, particularly Dubai and RAK, have are predicated on the assumption that sufficient power will be available (ref D). The Dolphin Project to import natural gas from Qatar was designed to deal with shortages, but it is clear that the pace of gas development did not match the speed of economic development. In addition, Abu Dhabi National Oil Company uses gas reinjection to maintain oil field pressure, limiting the amount of additional gas it can provide to meet the country's power needs.

10 (C) The Emirate of Abu Dhabi will be investing in a major project to develop sour gas reserves and to connect the offshore gas production network to mainland Abu Dhabi. The UAE is also evaluating peaceful nuclear power as projected electricity demands going forward will far outstrip the natural gas feedstock available. Finally, various emirates have explored purchasing natural gas from Iran, although the Crescent Petroleum/Dana Gas contract to purchase Iranian gas has stalled on pricing disputes (ref c). The de facto RAK Ruler, Crown Prince Saud bin Saqr Al-Qassimi, is ambitious in his development vision for his emirate; he has in the recent past informally sounded out Consul General in Dubai about USG reaction to RAK possibly purchasing gas from Crescent/Dana, should it come on

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line. CG discouraged Saud from looking to Iranian gas. End comment.
Quinn